

SEC19

From: Ted Livingston <ted@kik.com>
Sent: Thursday, May 4, 2017 3:32 PM
To: Kik Board <board@kik.com>
Subject: Kik Board Materials
Attach: Kik Board Meeting Final - May 5 2017.pdf

Hi All,

Please see the board deck attached. Derek will also be sending out Appendices shortly.

Also, I wanted to share this article on ICOs that came out the other day that I thought would be helpful: <http://versionone.vc/will-initial-coin-offerings-fund-future/>

See you all tomorrow.

Ted

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e: ted@kik.com
k: ted





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By Kik Interactive Inc.

KIK_00106785

Board Meeting – May 5, 2017

Join 9954894055376 at kik.vidyocloud.com using any of the following options:

- To join from your desktop or mobile device, please click here <https://kik.vidyocloud.com/join/PKYZofzbXL>
- To join from a telephone using VidoVoice, dial the following number:
(800) 208-0751x9954894055376

The Kik logo, consisting of the word "kik" in a stylized, lowercase font with a small registered trademark symbol.

Agenda

- 1) Administrative
 - Board Approvals Required
 - Update on Legal
- 2) Operational Update
 - Product Process
 - Cryptocurrency
 - Exec Team
- 3) Executive Session

The Kik logo, consisting of the word "kik" in a stylized, lowercase font.

Administrative

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KIK_00106788

Prior Meeting Minutes

See Appendix #1, 2 & 3

Approval Required: Approve board minutes from February 1, 2017, April 19, 2017, and from the Compensation Committee Meeting on April 18, 2017

Board Approvals for Crypto Advisors

CoinFund

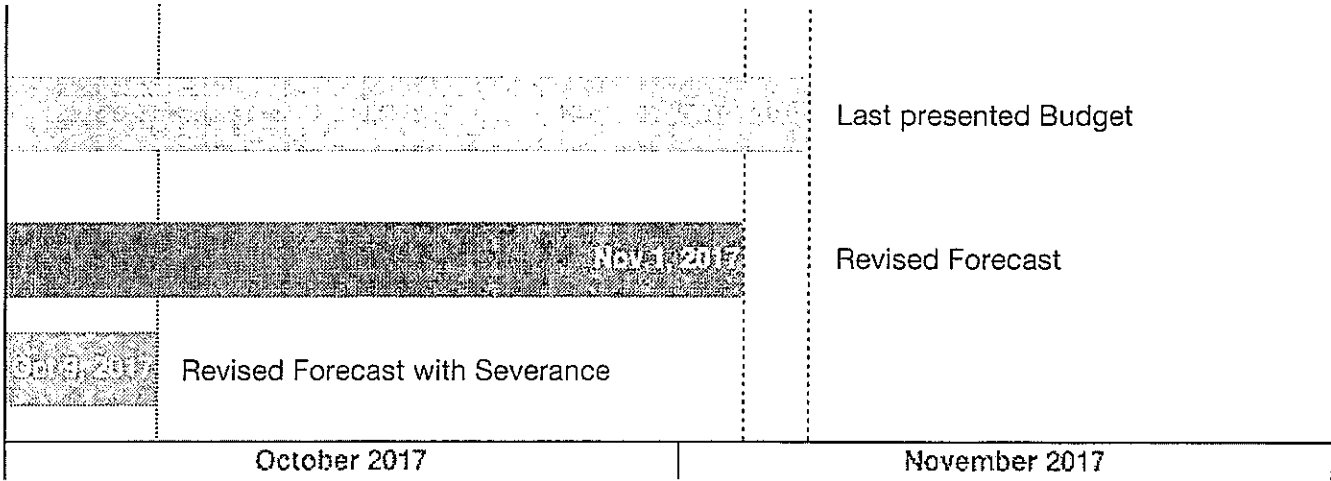
- Workfee of \$ 106,250, which will be netted against contingent payment
- Contingent Payment based on 10 % allocation of sale
 - 1 % of total raise paid in cash
 - 1 % of total raise paid in coin

CoinTree

- Contingent Payment based on 10 % allocation of sale
 - 1 % of total raise paid in cash
 - 1 % of total raise paid in coin

Approval Required: A non-exec board member to finalize deals

Runway – Budget vs. Revised Forecast



Litigation & Demands – PRIVILEGED & CONFIDENTIAL

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Future Board Meetings

Future Board Meetings*

- Wednesday, August 2, 2017 - Waterloo
- Wednesday, November 1, 2017 - NY
- Wednesday, February 7, 2018 - San Francisco
- Wednesday, May 2, 2018 - Waterloo

Interim Board Calls (Proposed, TBC)

- Wednesday, June 14, 2017
- Wednesday, September 13, 2017
- Wednesday, December 13, 2017

*Meetings may take place via Video Conference as needed

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Operational Update

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KIK_00106794

Product Process

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We Have All the Pieces to Build the World's Best Chat Community



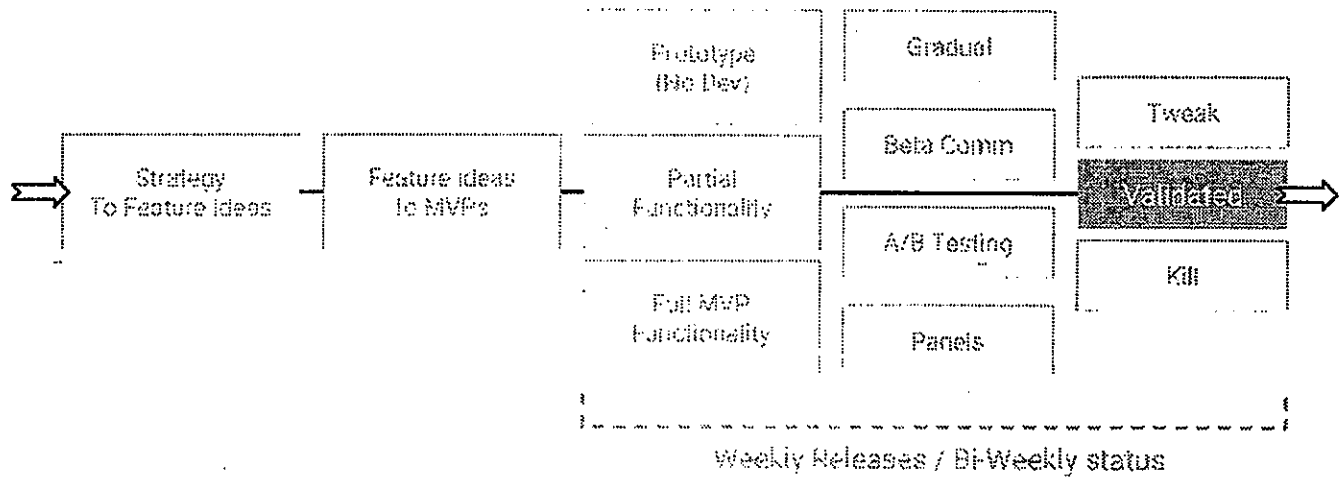
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Short

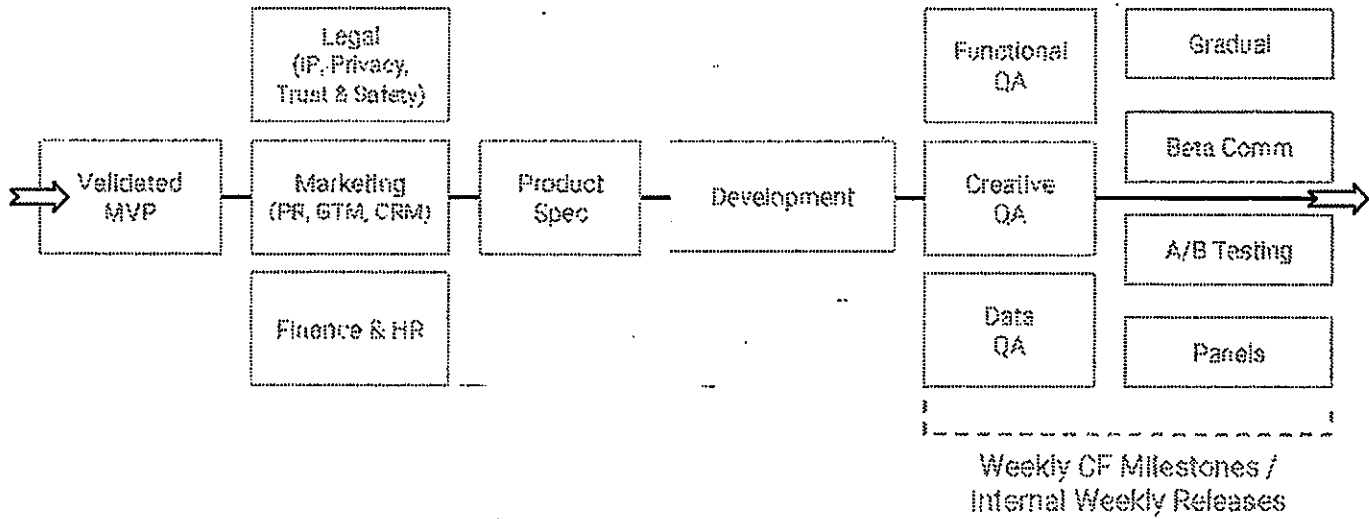
Objective

Validated MVP



Long

Objective
RIGHT Product



Cryptocurrency

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KIK_00106799

Vision

A decentralized chat platform that powers daily life

Three Beliefs:

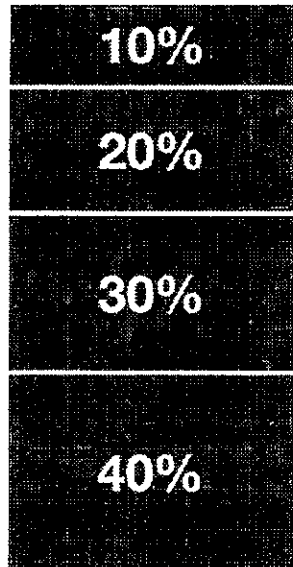
1. Chat will power daily life
2. A platform this important should be decentralized, like the internet
3. We are in a unique position to lead this decentralization

Key Decisions

- 1 Token Allocation**
- 2 Open Sourcing Kik**
- 3 Risk Tolerance**

Step 1

Create a new Cryptocurrency with 10 trillion coins



Users

- Given away to get the economy going

Kik

- As a reward for shareholders

Investors

- 10% sold on day 1, 10% sold after a year, 10% sold after 2 years

Community Builders

- As a reward for building, growing, and nurturing communities
- 0.001% of remaining reserves given away each hour (\$10K/hour @ \$1B)

Step 2

Build an economy inside Kik to give the cryptocurrency value

Why:

- Give the cryptocurrency value with a floating market cap

How:

- Create great experiences for users across our chat community pillars

What:

- Launch "Kik Points 2.0" inside Kik

Step 3

Use Kik's source code, user base, and the cryptocurrency to encourage people to build new communities

Why:

- We can enable and incentivize specific interest communities to build, grow, and monetize their own app for their own community

How:

- Give community owners the tools to build, grow, and monetize their own apps

What:

- Build: open source Kik to make it easy to build your own community
- Grow: advertise those communities inside Kik to users
- Monetize: users show up with spending power
- Monetize: 0.001% of the remaining reserves are given out to the community owners pro rata each hour for their contribution to the overall network (~\$5k/hour at a \$1B market cap)

Step 4

Decentralize the identity system with the currency serving as the constant

Why:

- Allow users to seamlessly move between communities, while not relying on a central source for identity (eg Kik)

How:

- Decentralize Kik's identity system

Risks

- 1 Securities law**
- 2 Accepting funds through token sale**
- 3 Money transmission law**

Securities Law

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Risk Assessment for Token Sale

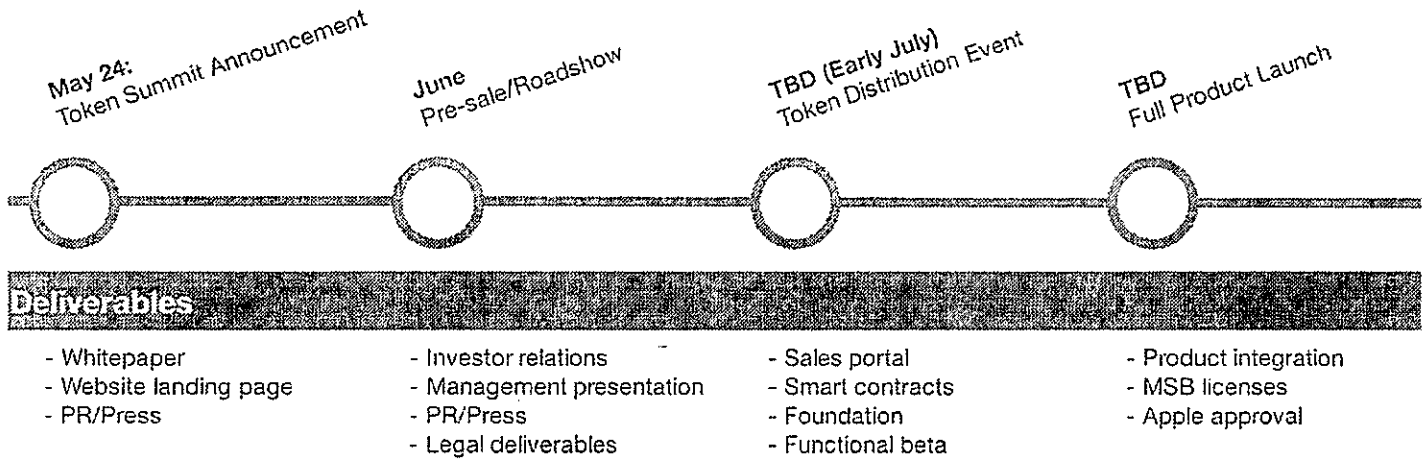


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Money Transmission Law

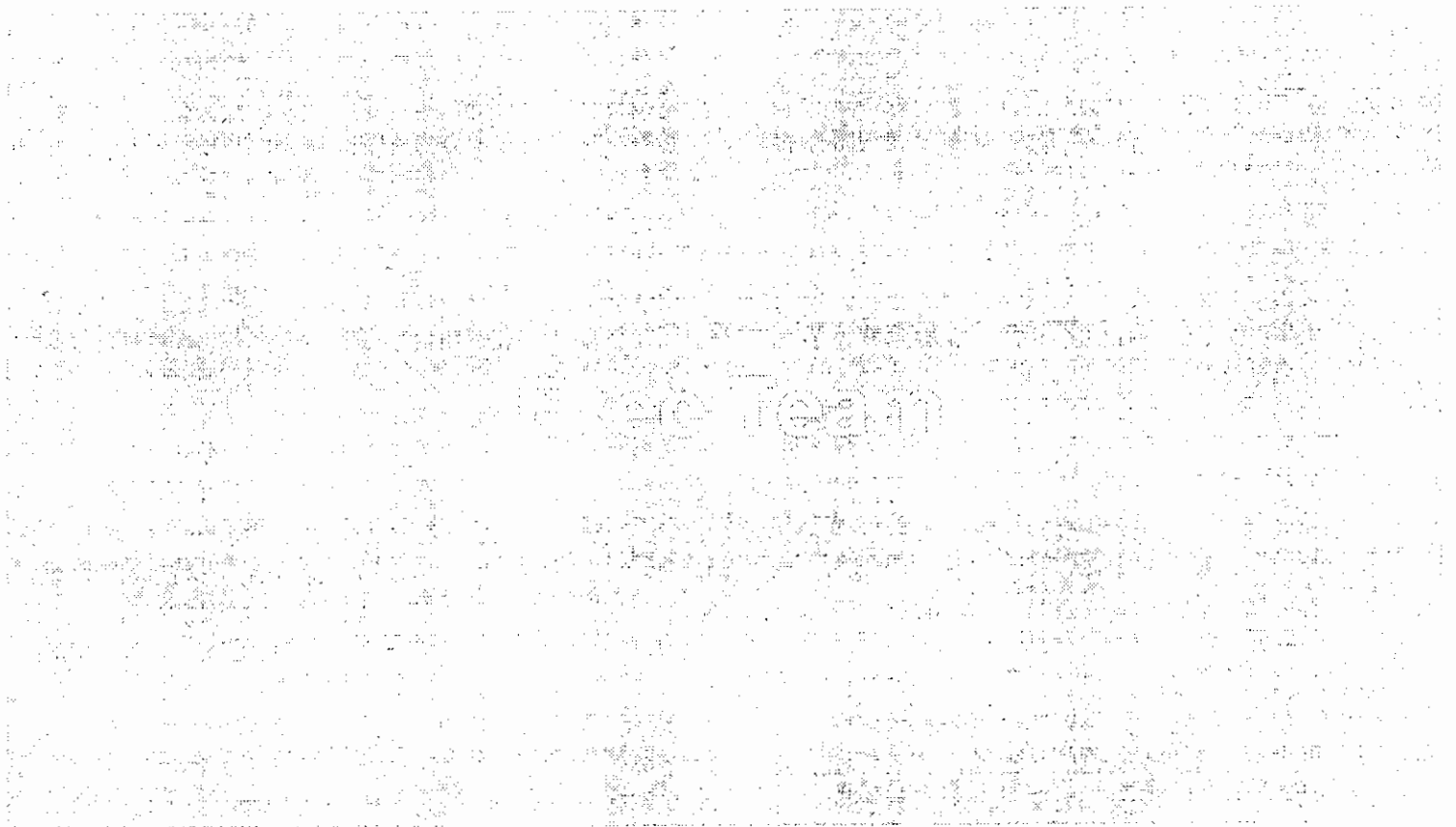
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Timeline



Key Decision Summary

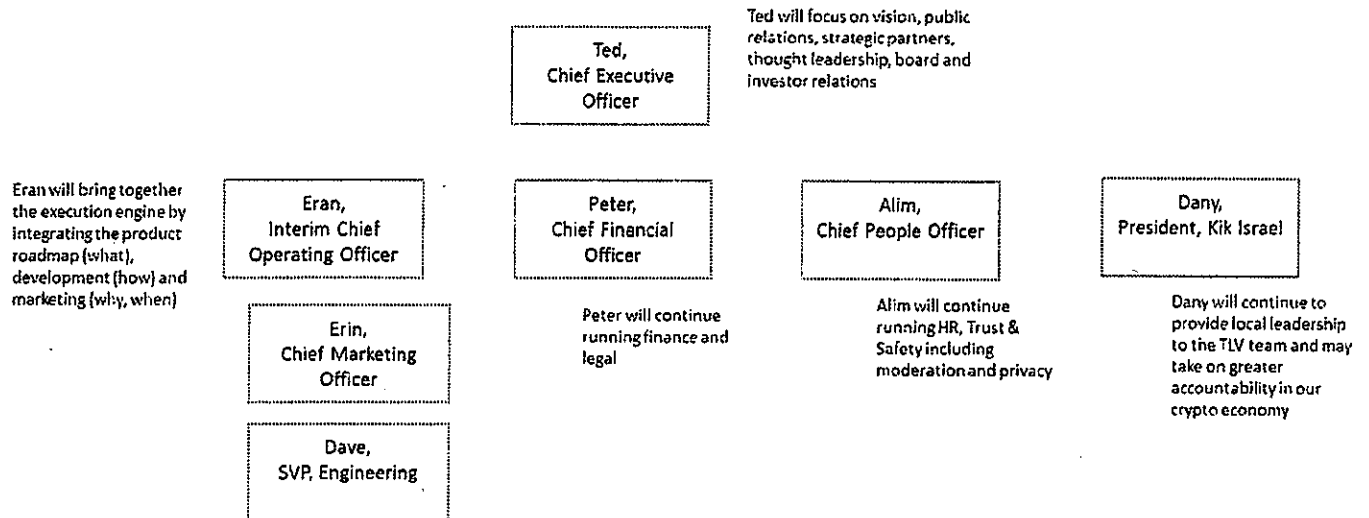
- 1** Are we comfortable with the allocation?
- 2** Are we comfortable open sourcing Kik?
- 3** Are we ok with recommended risk?



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KIK_00106612

Executive Realignment





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KIK_00106814

Sales Structure

Token Supply	10T Tokens
Float Offered	10%
Tiered Pricing Discounts	30%; \$0-30M (guide toward minimum with large discount) 15%; \$30-50M (smaller tranche to generate continued urgency) 5%; \$50-75M (a larger tranche) 0%; \$75-100M
Soft Cap	\$75M (followed by a 48 hour countdown once reached)
Kill Switch	Optional trigger to end sale post-Soft Cap and before 48 hours
Sale Time	30 days maximum
Minimum	\$20M; otherwise, contract refunds sale proceeds
Distribution	Fixed 10% sold; Token Allocation calculated at end of sale based on proceeds raised and distributed per the example below
Vesting	Time and Performance based for Founder and Consortium tokens

Administrative Updates

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KIK_00106816

Option Grants

Employee Grants

Grant Date*	Name	# of Options	Exercise Price*	Vesting Period	Vesting - Start Date
4-May-17	Matthew Enss	3,500	\$10.00	4-Year Cliff	9-Jan-17
4-May-17	Christie Felker	2,000	\$10.00	4-Year Cliff	1-May-17
4-May-17	Bryan Lahartinger	4,800	\$10.00	4-Year Cliff	29-May-17
4-May-17	Emir Hasanbegovic	4,800	\$10.00	4-Year Cliff	17-Apr-17

Consultant Grants

Grant Date*	Name	# of Options	Exercise Price*	Vesting Period	Vesting - Start Date
4-May-17	Ron Close	1,000	\$10.00	3-Year Cliff	1-Feb-17

Consultant Grant to Ron Close – To be discussed

Summarized Capitalization Table

	Shares Authorized	Shares Issued and Outstanding	Common Stock Equivalent	Fully Diluted Shares	Fully Diluted Ownership
Common Stock classes					
Common Stock	99,999,999	12,057,500	12,057,500		
Total Common Stock issued and outstanding			12,057,500	12,057,500	48.8023%
Preferred Stock classes					
Class A-1 Preferred Stock	585,529	497,349	497,349		
Series A Preferred Stock	4,000,000	3,699,900	3,699,900		
Series D Preferred Stock	1,178,045	1,178,045	1,178,045		
Series C Preferred Stock	1,651,481	1,651,481	1,651,481		
Series B Preferred Stock	1,779,990	1,779,990	1,779,990		
Total Preferred Stock issued and outstanding			8,806,765	8,806,765	35.6451%
Employee Stock Option Plan	4,809,857				
RSAs board approved					0.0000%
Options and RSUs issued and outstanding			3,201,419	3,201,419	12.9576%
Shares available for issuance under the plan			641,136	641,136	2.5950%
Total fully diluted				24,705,822	100.0000%

Insurance Coverage

- See Appendix #4

Financial Updates

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KIK_00106620

Financial Highlights

- Cash balance of \$18.42MM at March 31, 2017
- Average monthly burn January to March 2017 decreased to \$2.6MM from \$2.9MM in prior quarter
- Runway adjusted to November 1, 2017

Budget vs Actual (2017 Q1)

Based on Budget presented November 2016

Cash, Opening Balance	\$76,021,757	\$76,050,436	\$51,041,070	-32%
Income				
Revenue	152,079	0	152,079	100% - Revenue increased slightly due to sales
Total Income	\$152,079	\$0	\$152,079	100%
Cost of Goods Sold				
COGS - Kik Points	11,158,661	0	11,158,661	100% - COGS increased slightly due to increased Kik Points
Total Cost of Goods Sold	\$11,158,661	\$0	\$11,158,661	100%
Gross Margin	\$1,307,067	\$0	\$1,307,067	100%
Operating Expenses				
Server	2,770,012	2,804,119	1,124,707	-59% - Server costs significantly below budget due to server consolidation and data center due to Data Lake project
Storage and Backup	2,724,713	4,048,880	2,848,200	+3% - Budget increase in 1H17
				+ Actual increase in 1H17
				+ Data center consolidation and server refresh
Technical Expense	194,459	241,847	148,705	-24% - External data providers below budget, consolidation of external data providers in Q4, annual savings
Office and General	561,157	757,634	107,412	-80% - Office budget on track, but with significant savings and savings
Professional Fees and Consulting	242,140	712,000	145,810	-40% - Early in project of external data provider (forecast)
and Early Development	13,137	90,700	14,710	-84% - Early in project of external data provider (forecast)
Advertising and Promotion	514,772	225,000	140,230	-73% - Forecasted spend on external data providers
Travel, Meals and Entertainment	107,602	105,171	142,100	+33% - Forecasted costs increased with travel and entertainment budget
Lease Expense	121,545	171,200	125,331	+3% - Forecasted costs increased with travel and entertainment budget
Total Operating Expenses	\$17,528,928	\$9,331,170	\$37,067,409	+109%
EBITDA	\$6,692,216	\$6,104,213	\$5,211,095	-22%
Other Income Expenses	79,420	92,208	79,667	+1% - Other income on forecasted sales
Net Income	\$6,446,516	\$6,057,943	\$5,413,772	-15%
Temporary Differences	\$22,870	\$12,591	\$48,831	+113% - Non-cash reversal of Kik Points Provision
Cash, Ending Balance	\$16,599,170	\$16,201,334	\$15,967,296	-4%

See Appendix #5 for full Financial Statements

Budget vs Actual (March 2017)

Based on Budget presented March 2017

Start Opening Balance	\$10,131,144	\$10,131,144	\$0	0%
Revenue				
Revenue	42,145	0	42,145	100%
Revenue	\$42,145	\$0	\$42,145	100%
Cost of Goods Sold				
Cost of Goods Sold	125,427	127,441	125,427	98%
Total Cost of Goods Sold	(\$125,427)	(\$127,441)	(\$125,427)	98%
Gross Margin	\$301,702	\$33,441	\$900,261	96%
Operating Expenses				
Salaries	727,417	724,417	727,417	-1%
Salaries and Benefits	1,324,863	1,335,786	1,324,863	12%
Travel Expenses	78,448	78,448	78,448	3%
Office and Rent	745,402	747,554	745,402	98%
Professional Fees and Consulting	100,445	115,600	100,445	-12%
Legal Fees	0	10,000	0	-100%
Advertising and Promotion	87,448	87,448	87,448	98%
Phone, Internet and Miscellaneous	87,448	87,448	87,448	98%
Other Expenses	0	14,448	0	-100%
Total Operating Expenses	\$2,042,523	\$2,047,523	(\$2,042,523)	-1%
EBITDA	(\$1,674,819)	(\$2,610,428)	\$935,509	-50%
Other Income & Expenses	104,448	104,448	104,448	98%
Net Income	(\$2,628,259)	(\$2,633,428)	\$541,300	-25%
Temporary Differences	1,978,711	1,990,221	1,978,711	98%
Cash, Ending Balance	\$10,289,850	\$10,417,817	(\$147,967)	-1%

See Appendix #5 for full Financial Statements

Forecast Updates

- Added Crypto expenses expected to incur prior to the TDE
 - Additional expenses expected to incur if successful TDE

Redacted

- Server architecture optimization & negotiations resulting in cost savings

Forecast - CY17

	Calendar Q1 FY17	Calendar Q2 FY17	Calendar Q3 FY17	Calendar Q4 FY17	Total
Income Statement					
Revenue	112,000	0	0	0	112,000
Cost of Sales	(1,155,164)	0	0	0	(1,155,164)
Gross Margin	\$1,267,164	\$0	\$0	\$0	\$1,267,164
Operating Expenses					
Salaries	2,168,013	1,341,168	1,774,407	1,435,285	7,718,873
Technical Expenses	284,234	131,448	168,713	162,434	746,829
Research and Development	2,154,144	1,702,082	2,366,894	2,544,637	8,767,757
Office and General	684,190	659,898	670,881	669,444	2,684,413
Professional Fees and Consulting	242,144	646,619	434,811	497,712	1,821,286
License Fees and Royalties	11,454	145,474	218,274	244,473	519,675
Travel	24,414	100,000	100,000	100,000	324,414
Cost of Sales	122,276	122,276	122,276	122,276	489,104
Int'l Party, Conferences, etc.	3,681	433,660	35,569	40,500	473,410
Advertising and Promotion	154,170	170,000	357,170	257,170	938,510
Travel, Meals and Entertainment	257,169	300,000	274,967	274,967	1,027,103
Legal Expenses	257,169	300,000	274,967	274,967	1,027,103
Operating Expenses	\$7,850,595	\$6,099,511	\$7,254,717	\$7,161,103	\$28,365,926
EBITDA	(\$6,583,431)	(\$6,099,511)	(\$7,494,717)	(\$7,161,103)	(\$26,278,762)
Other Income/Expenses					
Other Income	146,417	50,000	62,417	50,000	208,834
Other Expenses (Net)	(10,000)	(10,000)	(10,000)	(10,000)	(40,000)
Other Income/Expenses	\$136,417	\$40,000	\$52,417	\$40,000	\$168,834
Net Income/(Loss)	(\$6,447,014)	(\$6,059,511)	(\$7,442,300)	(\$7,121,103)	(\$26,070,328)
Cash Flow					
Cash, Beginning	25,521,757	15,308,670	15,308,670	2,524,170	58,663,267
Operating	(7,121,103)	(7,121,103)	(7,121,103)	(7,121,103)	(28,484,412)
Investing	0	0	0	0	0
Financing	0	0	0	0	0
Cash, Ending	\$18,400,654	\$8,187,567	\$8,187,567	(4,596,933)	30,179,255
Free Cash Flow	0	0	0	0	0
Cash, Ending - Adjusted	\$18,400,654	\$8,187,567	\$8,187,567	(4,596,933)	30,179,255

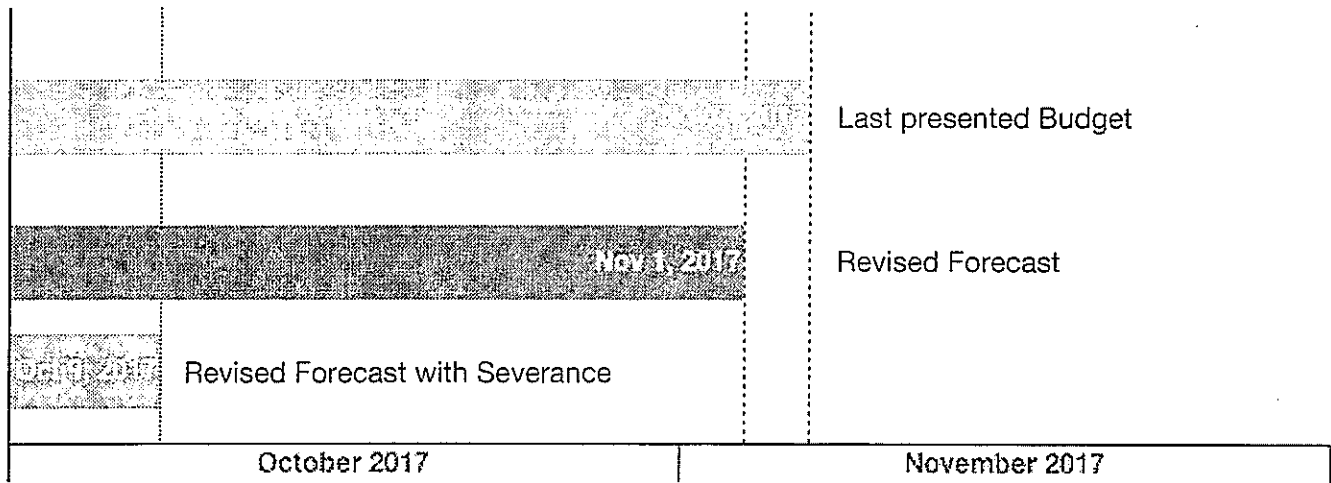
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KIK_00106625

Budget vs. Revised Forecast

	Apr-17	Jun-17	Jul-17	Sep-17	Oct-17	Dec-17	9-month Total
Operating Burn							
Revised Forecast		8,098k		7,495k		7,161k	22,753k
Budget (presented in March 2017)		7,735k		7,771k		7,684k	23,190k
Increase in Spend		362k		(276k)		(523k)	(437k)
Key Forecast Changes:							
Cryptocurrency Spend		458k		0k		0k	458k
Legal Spend		32k		56k		91k	180k
Other (travel, consulting, etc.)		37k		29k		37k	103k
Server Savings		(165k)		(362k)		(651k)	(1,178k)
Increased Spend		362k		(276k)		(523k)	(437k)
Cash Balance							
Revised Forecast		10.3mm		2.6mm		(4.7mm)	(4.7mm)
Budget (presented in March 2017)		10.5mm		2.8mm		(4.2mm)	(4.2mm)
Cash - Increase/(Decrease)		(0.1mm)		(0.3mm)		0.5mm	0.5mm

Runway – Budget vs. Revised Forecast



Server Expenses

Key server costs trending down:

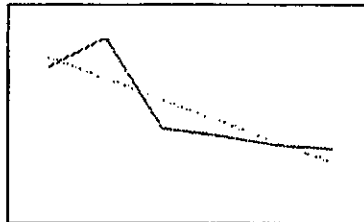
Amazon (AWS)



*Nov-16 - Apr-17

- Significant optimizations in hosting costs associated with core messenger
- Offset by increased data consumption
- Monthly costs projected to be below budget by 7.5% based on current architecture

Google Cloud



*Nov-16 - Apr-17

- Optimized hosting costs associated with bot platform
- Further savings realized due to sunsetting of Kik Points
- Monthly costs projected to be below budget by 25% based on current architecture

Server Expenses (cont.)

Rackspace Migration

- Assessing a “lift and shift” strategy with two key vendors (Amazon/Google)
- Expect to receive a formal proposal from both vendors before end of May
- Opportunity for \$820k (\$520k recurring, \$300k non-recurring) in annual savings based on preliminary discussions with Amazon based on multi-year commitment
- Savings to be realized Nov-17 onwards
- Expect more aggressive pricing from Google as Kik could be a strategic partner going forward

Crypto Costs - Pre TDE

	Apr-17	May-17	Jun-17	Total
Pre-TDE				
Penetration Testing	0	0	100,000	100,000- Testing to evaluate Kik's vulnerability to external attackers
Coinfund Consulting	44,000	31,000	31,000	106,000- Strategic advisory
KPMG - Advisory Fees (tax, structure, etc.)	0	10,000	15,000	25,000- Advisory fees related to (i) taxation and (ii) structure
Zeppelin - Security Audits	0	0	30,000	30,000- Report on Kik's Smart Contracts from a security perspective
Zeppelin - Platform Integration	0	0	10,000	10,000- Fundraiser platform to facilitate crowdsale
Zeppelin - Escrow	0	0	2,000	2,000- Key management services
Travel - Roadshow	0	29,850	29,850	59,700- Peter/Ted travel for 1.5 months during Roadshow
Marketing Contingency	0	62,500	62,500	125,000- Promotion and PR related to ICO
Subtotal	\$44,000	\$133,350	\$280,350	\$457,700

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KIK_00106830

Crypto Costs - Run the Foundation & MSB

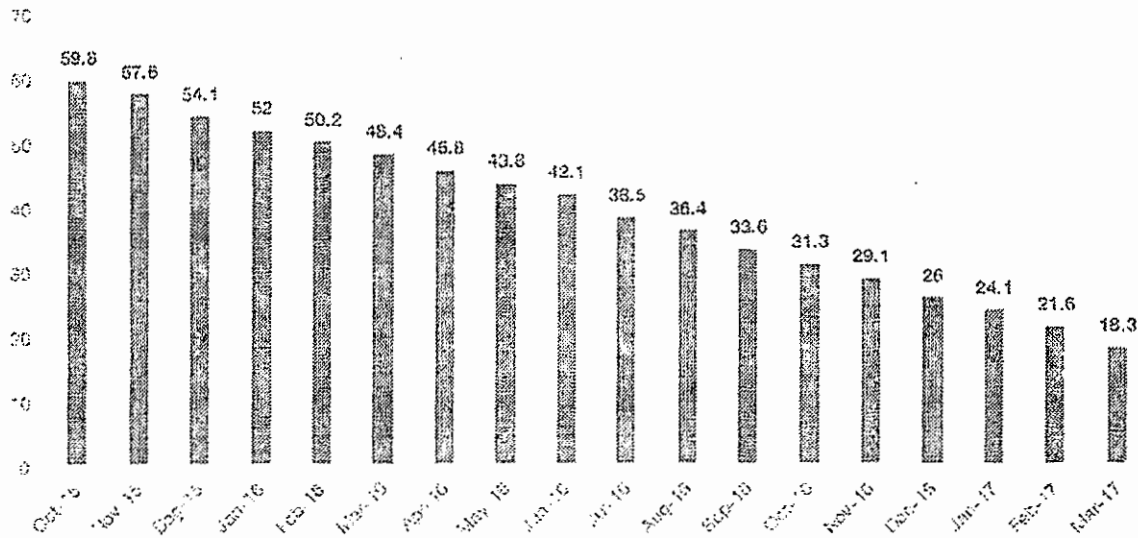
	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Total
Run the Foundation & MSB							
Security - SOC2 Report	0	0	250,000	0	0	0	250,000
Money Service Broker (Fees) - Set-up Fees	50,000	50,000	200,000	200,000	0	0	500,000
Money Service Broker (Fees) - Regulatory	0	0	150,000	0	0	0	150,000
Zeppelin - Escrow	0	2,000	2,000	2,000	2,000	2,000	10,000
Incremental Hires - Salaries/Benefits	45,551	80,785	103,119	125,888	136,053	133,660	625,057
Subtotal	\$95,551	\$132,785	\$705,119	\$327,888	\$138,053	\$135,660	\$1,535,057

- Projected annual burn (full run rate) = 2.06MM
 - Level of funding required to sustain the Foundation/Trust
 - 80% of costs related to headcount
 - 20% of costs related to recurring regulatory items
- Assessing options to fund the entity; potential to leverage consortium members
- 11 heads required to run the entity independently of Kik

Legal Costs

Redacted

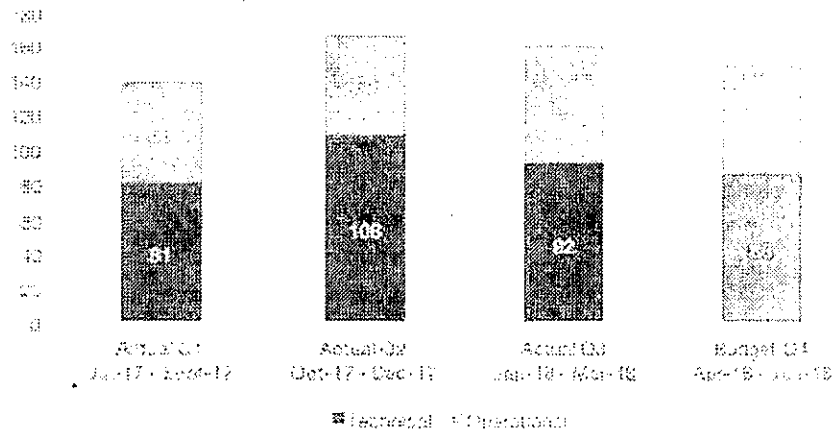
Cash Balance (MM)



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KIK_00106833

Headcount



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Condensed Cash Flow

Actual Cash - January 1, 2017	\$25.52
Cash Flow from Operations	(7.20)
Cash Flow from Financing	0.00
Cash Flow used in Capital Investments	(0.05)